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FISCAL IMPACT STATEMENT

LS 7539

BILL NUMBER: HB 1695

NOTE PREPARED: Jan 20, 2005

BILL AMENDED:

SUBJECT: Sales Tax Increment Financing.

FIRST AUTHOR: Rep. Behning

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill authorizes the city of Indianapolis to establish a Sales Tax Increment Finance District to carry out redevelopment and economic development projects involving capital investment in excess of \$100,000,000. It also permits the use of a Sales Tax increment for any purpose for which a property tax increment may be expended.

Effective Date: July 1, 2005.

Explanation of State Expenditures: This bill authorizes Indianapolis to establish an economic development project district and use Sales Tax Increment Financing (STIF) to carry out economic development projects involving capital investment in excess of \$100 M. This bill does not set a dollar cap, but current law would limit Indianapolis to capturing no more than 80% of the net increment.

The increase in state expenditures is indeterminable. The Department of State Revenue (DOR) is responsible for determining the net increment used in calculating the amount of money that will be given back to the municipality. The resulting administrative cost impact to DOR could presumably be covered through the use of existing staff and resources.

To establish a district in Indianapolis, there must be approval by the State Board of Finance (SBF). The SBF is required to approve the resolution of the Metropolitan Redevelopment Commission that establishes the district. The DOR's determination of the net increment is also subject to approval by the SBF. The SBF is also responsible for determining the adjustment factor. The maximum adjustment factor under IC 36-7-26-3 is 80% (for an explanation of the gross increment, net increment, and adjustment factor, see the example below).

Explanation of State Revenues: This bill authorizes Indianapolis to establish an economic development project district and use Sales Tax Increment Financing to carry out economic development projects involving capital investment in excess of \$100 M. The overall impact of this provision on state Sales Tax revenue will be determined by local actions with approval of the State Board of Finance. The effect on Sales Tax revenue will also depend upon the amount of new Sales Tax generated in the district. After the district is established, the preceding fiscal year's Sales Tax revenue for the district is used as the base. Any Sales Tax revenue from that year forward is then compared to the base year, and any revenue difference, up to 80%, is able to be captured for STIF.

Example: If a district was established in FY 2006, the "base period amount" would be the Sales Tax remitted by businesses within the district for FY 2005. The Sales Tax collected by businesses in the district total \$5 M in FY 2005. If Sales Tax revenue for FY 2006 totaled \$6 M, the "gross increment" for the district would be \$1 M. The maximum adjustment factor is 80%. The net increment is the amount of Sales Tax revenue that can be captured by the district for redevelopment. The net increment equals the gross increment multiplied by the adjustment factor, or in this case, \$1 M multiplied by 80%. Therefore, the maximum amount of Sales Tax revenue that could be captured by the district is \$800,000.

There is also no statutory limit on the size of the district within the city of Indianapolis. Indianapolis encompasses all of Marion county with the exception of the cities of Lawrence, Southport, Beech Grove, and the town of Speedway. If all of Marion County were delineated for the district, the impact on Sales Tax revenues would be significant. The Sales Tax revenue projected for Marion County in CY 2005 is \$808,836,391 and the projection for CY 2006 is \$846,851,702.

Background: Currently the cities of Hammond, South Bend, Fort Wayne, and Evansville are eligible to establish these districts and use STIF. Of those eligible cities, only South Bend has taken steps to use this provision, and the DOR has yet to receive information of actual development that would qualify for STIF.

Fort Wayne and Evansville may not receive more than 50% of the net increment each year, and not more than \$1 M overall. South Bend may not receive more than 50% of the net increment each year, and not more than \$1 M per year. Hammond is limited to 80% of the net increment.

Sales Tax revenue is deposited in the: Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

Explanation of Local Expenditures: In order to establish a district in Indianapolis, this bill requires the Metropolitan Redevelopment Commission to adopt a resolution that makes a finding that the district will:

- (1) Attract new business enterprises to the district or retain or expand existing business enterprises in the district.
- (2) Benefit the public health and welfare and be of public utility and benefit.
- (3) Protect and increase state and local tax bases or revenues.
- (4) Result in a substantial increase in temporary and permanent employment opportunities and private sector investment within the district.

Proceeds of the STIF may be used for any purpose for which property taxes allocated to a redevelopment district may be expended. Proceeds may be used to do one or more of the following:

- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds that are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under IC 36-7-15.1.
- (D) Pay the principal of and interest on bonds issued by the consolidated city to pay for local public improvements in that allocation area.
- (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (F) Make payments on leases payable from allocated tax proceeds in that allocation area under IC 36-7-15.1.
- (G) Reimburse the consolidated city for expenditures for local public improvements (which include buildings, parking facilities, and other items set forth in IC 36-7-15.1) in that allocation area.
- (H) Reimburse the unit for rentals paid by it for a building or parking facility in that allocation area under any lease entered into under IC 36-1-10.
- (I) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:
 - (i) in the allocation area; and
 - (ii) on a parcel of real property that has been classified as industrial property under the rules of the Department of Local Government Finance.

Explanation of Local Revenues: The overall impact of this bill on state and local revenue will be determined by local actions and the State Board of Finance. It is not known how much Sales Tax will be collected and transferred annually. The Commission will be able to capture a portion of the increase in sales tax revenue collected in the district that is above the revenue generated in a base year, as determined by the DOR.

State Agencies Affected: Department of State Revenue; State Board of Finance.

Local Agencies Affected: Metropolitan Redevelopment Commission.

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